

Rural Utilities Service, USDA

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equipment, or services from its subsidiary, an affiliate, or significant stockholders, officers, managers or directors of the Borrower, or close relatives thereof, where the purchase or lease has not been fully disclosed to the Administrator and received the Administrator's prior written approval;

(4) By the recipient of a pass-through-loan or pass-through-grant to purchase or lease any real property, materials, equipment, or services from the Borrower, its subsidiary, an affiliate of the Borrower, or significant stockholders, officers, managers or directors of the Borrower, or close relatives thereof, where the purchase or lease has not been fully disclosed to the Administrator and received the Administrator's prior written approval;

(5) To pay off or refinance existing indebtedness incurred prior to receipt of the Borrower's completed application by RUS or for refinancing or repaying a loan made under the Act or a program administered by the Administrator;

(6) For any electric or telephone purpose, as determined by the Administrator;

(7) For the Borrower's electric or telephone operations or for any operations affiliated with the Borrower unless the Administrator has specifically informed the Borrower in writing that the operations are part of the approved purposes;

(8) To pay the salaries of any employee or owner of the Borrower, its subsidiaries, or affiliates. This restriction does not prohibit the use of loan or grant funds for printing and similar costs for project feasibility studies it has prepared, commissioned or purchased if specifically approved by the Administrator. This restriction is subject to the operating expense allowance for revolving loan funds set forth in § 1703.22 (a)(6);

(9) To fund feasibility studies and technical assistance as set forth in § 1703.18 independently of projects which are funded under the zero-interest loan and grant program;

(10) For community antenna television systems or facilities except as provided in § 1703.17(d) of this subpart;

(11) For proposed projects located in areas covered by the Coastal Barrier Resources Act (16 U.S.C. 3501 *et seq.*); or

(12) For anything other than an approved purpose.

(b) [Reserved]

[59 FR 11707, Mar. 14, 1994, as amended at 59 FR 53930, Oct. 27, 1994]

§ 1703.21 Limitations on the use of zero-interest loan and grant funds.

(a) A borrower may not charge interest for the use of the proceeds of the zero-interest loan provided under this program; however, it may charge reasonable loan servicing charges, reasonable legal fees involved in providing the RUS funds to the recipient, and the amount paid for an irrevocable letter of credit made payable to RUS and issued on behalf of the borrower that guarantees repayment of an RUS zero-interest loan, all as determined by the Administrator. A borrower may require the recipient of a pass-through-loan to provide and/or obtain adequate security for the zero-interest loan funds.

(b) A borrower must calculate any costs to charge in connection with the use of grant funds under this program for the project and must temporarily deposit the grant funds in accordance with 7 CFR parts 3015, Uniform Federal Assistance Regulations, and 3016, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, as appropriate. Grant funds will be disbursed to the Borrower in accordance with § 1703.61(b).

(c) A borrower may not make a profit from any zero-interest loan or grant provided from the subaccount, with the exception of the \$500 interest income exclusion in paragraph (d) of this section.

(d) The Borrower may not requisition zero-interest loan funds unless those funds are deposited into the Borrower's RUS construction fund trustee account. The Borrower will be required to set up a separate Federally insured account called the Rural Economic Development Account, if loan funds are not expected to be disbursed within two months after receipt from RUS. All interest earned on temporarily deposited zero-interest loan funds in excess of \$500 per 12-month period must

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be used for approved purposes or returned to RUS. Interest earned in excess of \$500 per 12 month period and returned to RUS will not be used to reduce the Borrower's principal indebtedness. Grant funds will be disbursed by RUS in accordance with 7 CFR parts 3015 and 3016, and §1703.61(b).

(e) The borrower may not condition the receipt of the proceeds of a zero-interest loan or grant under this subpart with the requirement that the recipient take electric or telephone service from the borrower.

[57 FR 44317, Sept. 25, 1992, as amended at 59 FR 11708, Mar. 14, 1994]

§ 1703.22 Revolving loan program.

Grant funds under this section will be provided only to RUS Borrowers on a non pass-through basis. RUS Borrowers will, in turn, provide loans to foster rural economic development in accordance with this subpart and the specific requirements of this section.

(a) *General.* Grant funds disbursed to RUS Borrowers to establish revolving loan programs under this section are subject to the following requirements:

(1) The uses, restrictions and limitations for zero-interest loans set forth in §§1703.17, 1703.20 and 1703.21 respectively;

(2) Loans made by RUS Borrowers initially lending grant funds disbursed by RUS are limited to types of projects specified in §1703.18 (d), (e), (f), (g) and (h). Loans may also be made for feasibility studies and technical assistance in accordance with §1703.18 (b) and (c), respectively, but only for those types of projects specified in this paragraph (a)(2). Loans made from repayments of the initial loans made by RUS Borrowers may be used for any rural economic development purpose in accordance with a prior agreement between the Borrower and RUS;

(3) All other requirements relevant to zero-interest pass-through loans and grants outlined in this subpart, except the minimum size of a zero-interest loan as specified in §1703.28(f);

(4) The initial loans made from the revolving loan fund using the grant funds must carry an interest rate of zero percent; however, loans made from repayments of the initial loan may carry an interest rate in accordance

with prior agreement with RUS. In either case, the Borrower may charge reasonable loan servicing fees;

(5) The Borrower will provide a board resolution certifying a commitment to provide and maintain additional funding to the revolving loan fund in an amount no less than 20 percent of the RUS grant approved. The Borrower will provide documentation that the additional funding has been deposited in the appropriate account in §1703.22(h)(1) prior to grant disbursement. This requirement does not pertain to supplemental funding requirements for individual projects as set forth in §1703.23. Additional funding required in this paragraph pertains only to borrowers establishing revolving loan funds, with the following provisions:

(i) Use of additional funding is subject to requirements set forth in paragraph (b) of this section and with RUS concurrence;

(ii) Individual projects funded under this section are subject to supplemental funds requirements set forth in §1703.23;

(iii) At the Borrower's option with RUS concurrence, all or a portion of the additional funding may be used to assist project owners receiving funding from Federal grant funds under this section to meet their supplemental funding requirements set forth in §1703.23 of this subpart. Such additional funding will be deemed as Federal funds and accounted for in accordance with paragraph (h)(1)(i)(A) of this section for electric borrowers or paragraph (h)(1)(ii)(A) of this section for telephone borrowers, as appropriate;

(iv) At the Borrower's option, all or a portion of the additional funding may be retained as non-Federal funds, for any rural economic development project(s), subject to paragraph (g) of this section and RUS concurrence. Additional funding committed as non-Federal will be accounted for in accordance with paragraph (h)(1)(i)(E) of this section for electric borrowers or paragraph (h)(1)(ii)(E) of this section for telephone borrowers, as appropriate;

(6) Grant funds will only be provided to an RUS Borrower for a revolving loan program when a proposed budget